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ROBERT D. KREBS
BURLINGTON NORTHERN SANTA FE

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Before the
SURFACE TRANSPORTATION BOARD
STB Ex Parte 582
March 7, 2000

Good morning, Chairman Morgan, Vice Chairman Burkes and Commissioner Clyburn. I am Robert D. Krebs, Chairman and Chief Executive Officer of Burlington Northern Santa Fe Corporation ("BNSF").

I commend the Board for holding this public hearing to give shippers and other interested persons an opportunity to express their views about recent major railroad consolidations and the present and future structure of the North American railroad industry. Two key issues are facing this Board, our industry, and our shippers. The first issue is the level of service America's railroads provide to their customers and to the communities they serve. Equally important is whether we will have a strong, financially healthy privately-held rail industry that is able to maintain and make the capital investments in facilities and infrastructure to provide that service.

In the recent Union Pacific/Southern Pacific and CSX-Norfolk Southern/Conrail mergers, many of the projected public benefits were based on anticipated service improvements; yet, the actual service provided to shippers from those merging carriers has not lived up to the promises made, at least in the first years following those transactions. In contrast, our railroad delivered the promises we made to shippers during our merger.

Our vision is to provide transportation services that consistently meet or exceed our customers' expectations and this Board should expect no less from the entire rail industry, even when railroads are involved in consolidations.

I also commend the Board for structuring this proceeding to remain separate from Finance Docket 33842, the proceeding in which you will consider the proposed combination of the BNSF and the Canadian National Railway Company. While I do not intend to address the merits of our proposed transaction today, the STB noted that today's hearing was prompted in part by our proposed combination and by some of the public responses to our announcement. Although the time and place for consideration of our proposed transaction is properly dictated by the schedule you will establish for Finance Docket 33842, I strongly believe that, in general, the best way to ensure maximum benefits for shippers and the general public is to consider proposed transactions rigorously, but on a timely basis, as they are presented to the Board. I will discuss this theme in more detail below.

THE OPEN LETTER TO SHIPPERS FROM SOME OF OUR COMPETITORS

Four large railroads, including our largest competitor, Union Pacific, have expressed concerns in an "Open Letter to Shippers" and in the media that our proposed combination will "force" them to consider new mergers of their own as a "strategic response" to our proposed transaction. They have implied that they would like the STB to "do something" to prevent another round of railroad mergers from occurring now, and have implied that our proposal should not even be considered on the merits at this time. I have three observations about this viewpoint in the context of this proceeding, particularly in the framework of the established sound regulatory policy of the STB and its predecessor that the proper role of regulation of such transactions is to protect competition, not competitors.

THE GOVERNMENT SHOULD NOT ACT AS A CENTRAL PLANNER FOR RAILROAD CORPORATE STRUCTURAL CHANGES IN THE UNITED STATES

First, it would be a huge mistake if the Federal government were to take on a central economic planning role for railroads that would dictate and regulate the timing of when corporate transactions in the rail industry could even be considered. No other industry in the United States has to receive the government's permission to propose a corporate transaction. It would significantly disadvantage our ability to attract investment capital to the railroad industry if we could not explore potential transactions without government approval to do so. In addition, from a practical standpoint, undue delay or the enactment of a "moratorium" on when transactions should even be considered can be tantamount to a denial of a transaction, without the benefit of an actual and fair hearing on the merits of a proposal.

I am frankly surprised that anyone would seriously propose to impose a new regulatory regime of central government planning on the timing of railroad transactions or on the ultimate structure of the United States railroad network. My colleagues in the rail industry have unanimously endorsed the overwhelming benefits to the public and to the economy that have come from the deregulation that followed enactment of the 4-R and Staggers Acts. For example, Dick Davidson of the Union Pacific testified before you a couple of years ago on another re-regulatory proposal relating to rates. His words from that proceeding are just as valid for this proceeding today:

> "The Staggers Act provided no guarantees that the railroads would succeed, but for the most part the industry rose to the challenge of deregulation. Railroads have learned to compete with each other and other modes of transportation, and to respond to other competitive forces. We have become financially stronger. We are more efficient providers of transportation service. We operate more safely. With the opportunity to achieve a reasonable return on our investments, we have made enormous capital investments in the future of our business. We have accomplished all of this while simultaneously reducing the rates we charge our customers. That is a powerful testimonial to the success of deregulation and in favor of a limited government role in fixing railroad rates and routes." Testimony of Richard Davidson at 6-7, incorporated in Comments of the Association of American Railroads, STB Docket No. 41242 et al., October 15, 1996.

John Snow of CSX testified in the same proceeding that the 4-R and Staggers Acts have "led to remarkable improvements in operating efficiency and service" in the rail sector. (Testimony of John Snow at p. 7.) And, David Goode of Norfolk Southern told you:

> "It bears repeated emphasis that the deregulatory initiatives of the 4-R Act and Staggers Act, and the ICC decisions implementing those legislative reforms, gave railroads the opportunity to compete effectively with other transportation modes for freight traffic, to reduce operating costs and improve service, and to improve the financial health of the industry." (Testimony of David Goode at 2-3).

Of course, as all of this testimony confirmed and as this Board well knows, the Staggers Act and the National Rail Transportation Policy were enacted in part to promote the efficiency of the national rail transportation system while minimizing the need for Federal regulatory control over that system. One way to accomplish rail system efficiencies is through appropriate rail consolidations, negotiated in a competitive environment, that are shown to satisfy the Board's public interest balancing test.

Your policy statement for merger or common control of two or more Class I railroads confirms that the STB encourages mergers and consolidations that are shown to be in the public interest and consistent with the National Rail Transportation Policy. (49 C.F.R. Sec. 1180.1). The STB's policy has clearly been correct — in the two decades since Staggers was enacted, numerous mergers and consolidations have allowed railroads to rationalize their route networks, offer shippers increasing numbers of single-line service options, reduce rates, generate the revenue needed to invest in capital improvements and restore viability to the freight transportation sector. Indeed, as Dick Davidson observed a few lines later in his testimony quoted above, "[b]y every measure, UP is financially healthier as a result of 15 years of deregulation and consolidation." (Emphasis added). But, shippers have been the true beneficiaries of this process, as service has improved (despite recent problems) and rates have declined.

The railroads in the United States have become more efficient, streamlined and consolidated since the Staggers Act and deregulation in 1980. U.S. and Canadian railroads are more productive and profitable than their international counterparts. The evidence is overwhelming that the deregulatory goals of the Staggers Act and the efficiency-promoting goals of the National Rail Transportation Policy have been remarkably successful in restoring vitality to the rail sector for the benefit of the shipping public. Appropriate mergers and consolidations have been an important part of that success story over the past two decades. Given that record, I do not understand how those goals can possibly be reconciled with proposals to impose new regulatory controls that would constrain or forbid the consideration now of potentially efficiency-enhancing transactions in the rail industry or that would allow the STB to predetermine how the national railroad map should be configured.

THE STB REGULATIONS AND PRECEDENTS ENSURE A VIGOROUS REVIEW OF THE MERITS WHENEVER A RAIL CONTROL TRANSACTION IS PROPOSED

Second, your regulations and precedents ensure that there will be vigorous review of the details of any proposed transaction to assure that it is consistent with the public interest and the National Rail Transportation Policy. You have a very important job to do in assessing the merits of any particular transaction and in determining whether a particular transaction is in the public interest by weighing the potential benefits of the transaction for the public against any harms that might arise from the transaction. That is appropriate in our case, as in all proposed transactions involving a change of control of railroads. We welcome our opportunity to make our case in Finance Docket 33842. The Board should not, however, adopt any new policy on the permissible timing of control transactions that denies shippers and the public the immediate benefits of increased competition and improved service that arise from transactions that merit approval.

The law was recently amended to provide that the STB must decide to approve or reject any proposed consolidation transaction within sixteen months of the filing of the application. This amendment confirms the intent of Congress to see the benefits of good transactions flowing to the public sooner rather than later, and also confirms Congressional intent that bad transactions should be rejected promptly. The notion that the benefits from good transactions should be withheld from the public to allow other railroads time to improve their ability to compete with a newly combined carrier is flatly inconsistent with this Congressional intent to assure the prompt realization of the benefits of good transactions. In fact, the whole idea of protecting competition — as opposed to protecting competitors — is that the public benefits if companies do everything they can, short of anticompetitive behavior, to get ahead of their competitors; and then the competition is forced to respond. The true beneficiaries of heightened competition, and competitiveness, in the rail industry are the customers currently using the rail network, and the customers who could use the rail network if the product offering value package — price, service, equipment, safety, and, increasingly, information — meets their needs in a way current transportation options do not. The benefits then flow to the overall economy.

SHIPPERS DESERVE PROMPT BUT THOROUGH REVIEW OF TRANSACTIONS THAT MAY BENEFIT THEM

Finally, it is obvious that our competitors do not want the STB to prevent future mergers and combinations; they just want the Board to intervene to delay the consideration of our proposal and thus, indirectly, control the timing of any future transactions they might wish to contemplate. Their "Open Letter to Shippers" acknowledges that "fewer railroads, coupled with improved business processes and new technology, should allow us to provide more reliable seamless interline service."

Why is it in the public interest to delay consideration of whether any specific transaction — ours included — will offer shippers "more reliable seamless interline service?" Isn't it instead in the public interest to review proposed transactions as they arise and, if they are found to be beneficial, to expedite the realization of those benefits for shippers?

That is not to say that I agree with the forecast of our competitors that they will be "forced" into another round of rail mergers if our transaction is approved. I do not have any information about what our competitors will want to do if our transaction is approved, but I do not understand why a proposed transaction that is essentially a north-south end-to-end combination would have to trigger any "strategic" response that is east-west in nature. I do not believe that anyone testifying in this proceeding knows for certain what the North American railroad map will look like in five years or ten years.

I have stated in the past, and still believe it to be possible, that at some point the rail industry will consolidate further resulting in transcontinental rail lines in the United States. I still think that is a real possibility; but I know no more than anyone else when the time would be right for that evolution, if it occurs at all, subject, of course, to STB consideration of the merits of each proposed transaction. I believe that such a development could occur only when it is clear that shippers will benefit substantially from the expanded single-line services such a structure would provide and only when the combining rail carriers are in a position to execute the combination by delivering promptly on their benefits to shippers and without harming shippers in the process. Clearly, several major U.S. rail carriers are not now in a position to enter into a new transaction. UP is just coming out of its service difficulties and may or may not be ready in the near term to participate in a new combination, but in the East, it is clear that neither carrier is in a position to attempt a consolidation with another carrier right now.

THE BNSF MERGER DELIVERED THE SUBSTANTIAL BENEFITS THAT WERE PROMISED TO SHIPPERS

Turning to the concerns I have heard from our customers, I want to assure them that I understand why they have felt shortchanged by the UPSP merger and Conrail breakup. The benefits promised to them have not always materialized as rapidly as expected, and many shippers suffered unacceptable service breakdowns during the UPSP integration and during the recent efforts of NS and CSX to divide Conrail and integrate those assets into their systems. As an industry we have let many shippers down so much for so long that it is not unusual or unexpected to see many opposed to further consolidation in our industry. The people who do what they say they are going to do get tarnished with the same brush as those who do not. Very little attention has been paid to what really has been a successful rail merger serving customers well.

I urge our customers and this Board not to let these recent problems cause you to lose sight of the substantial benefits that our shippers have enjoyed as a result of the 1995 merger between the Burlington Northern Railroad and The Atchison, Topeka and Santa Fe Railway Company. Our successful experience should dispel the myth that combining carriers will necessarily flounder and degrade service to shippers while implementing a merger. Our experience should also dispel the myth that shippers have not realized benefits from any recent mergers. Our shippers, employees and owners have clearly benefited from the BNSF transaction in every category of safety, business growth, customer service, transportation value, efficiencies, employment security, financial performance, expanded capacity and investment in equipment.

For example, we have improved our safety record. BNSF employee days lost due to injury dropped from 53,900 in 1994 to 18,500 in 1999 — a striking 66% reduction, as shown on Appendix A, BNSF Lost Workdays-Total 1994-1999, attached to this statement. This chart was previously filed as Chart 4 in BNSF's Quarterly Report Filed January 18, 2000. Besides eliminating unnecessary pain and suffering among our workforce, this reduction in lost workdays yields the equivalent of about 170 more rail workers who were available to serve our shippers in 1999. Another measure of improved safety — the ratio of lost work days per 200,000 hours worked — dropped by 65% over the same time period. See Appendix B, BNSF Lost Workdays Per 200,000 Manhours 1994-1999. (Chart 3 in BNSF's Quarterly Report.) Train accidents per million train miles are down 32 percent since the 1995 peak, and the average annual reduction in accidents over the 1997-1999 period is 140 compared with 1995. See Appendix C, BNSF Train Accidents per Million Train Miles 1994-1999. (Chart 5 in BNSF's Quarterly Report.)

We have increased the efficiency of the BNSF system. We have achieved remarkable reductions in the cost of operating our network between 1994 and 1999, reductions which have directly benefited shippers by allowing us to reduce real rail costs for our customers. Our operating expense per 1000 gross ton miles (GTM's) dropped 22%. When we adjust for inflation using a 1994-1999 cumulative RCAF factor, the real improvement is more than 27%. See Appendix D, BNSF Current and Adjusted Operating Expense per 1,000 GTM's 1994-1999. (Chart 36 in BNSF's Quarterly Report.) Efficiency measured in GTM's per employee has risen 46% since 1994. See Appendix E, BNSF GTM's per Employee 1994-1999. (Chart 45 in BNSF's Quarterly Report.) At the same time, these improvements were not made at the expense of our employees. Although employment has been reduced from 45,700 employees in 1994 to 42,600 employees in 1999, BNSF has hired about 16,300 employees during that time, about 90% into various union crafts. See Appendices F and G, BNSF Total Employees and New Hires 1994-1999. (Charts 39 and 40, respectively, in BNSF's Quarterly Report.) We have made little or no reductions in the fundamental areas that could affect safety or service -- train, engine and yard crews and maintenance crews. Perhaps the best illustration of the effect of our efficiency improvements is the fact that BNSF's efficiency improvements <u>reduced</u> overall expenses almost 2.5 times as much as the 6.5% inflation (RCAF-U factor) <u>added</u> to expenses, as shown by the attached "waterfall" chart. See Appendix H, BNSF Operating Expense 1994-1999. (Chart 38 in BNSF's Quarterly Report.)

Finally, in the critical area of customer service, we are very proud of our substantial improvement in on-time performance, which has increased from about 78% in 1997 (the first year for which this data is available) to 91% in 1999, a sustained level that has never been achieved by a railroad of our size. See Appendix I, BNSF On-Time Performance-System 1994-1999. (Chart 13 in BNSF's Quarterly Report.) At the same time, shippers have enjoyed substantial rate reductions — BNSF's system revenue per ton (after adjustment for inflation) in 1999 is down 20% compared with 1994. The most dramatic drops have been in coal, where BNSF's adjusted system revenue per ton is down 27%, and carload, where BNSF's adjusted system revenue per ton is down 20%.

Our customers have benefited tremendously from the expanded network and increased options for single line service that resulted from the BNSF merger, as demonstrated by the growth in intermodal units across selected major routes between 1995 and 1999 — up 40% between Chicago and the Pacific Northwest, up 54% between Chicago and Texas, and up 170% between Minnesota and California, Arizona and New Mexico. See Appendix J, Burlington Northern Santa Fe Increases in Intermodal Traffic 1995-1999. (Chart 15 in BNSF's Quarterly Report.)

We also opened up new markets for grain shippers in the Upper Midwest to the West and Southwest, and grain traffic between these points has grown 40% since 1995. In addition to the examples cited above, we discussed many other facets of the BNSF merger benefits to shippers in our Quarterly Report to the STB in Finance Docket 32760, filed on January 18, 2000. In addition, while we delivered on the commitments we made to our customers when the BNSF merger was proposed, rail competition in the markets we serve in the western United States has been intense. In 1996, BNSF's market share of rail traffic in the western United States was 39.6% compared to 50.1% for Union Pacific. BNSF's share grew to 44.3% in 1998 compared to 44.8% for UP. In 1999, as UP recovered from its service infirmities, UP's share regained ground to 45.9%, as BNSF's was reduced to 43.5%.

Meanwhile, we have vigorously utilized the competitive opportunities we obtained in the UPSP merger. We grew the business derived from our access to the lines and facilities we gained as conditions to the UPSP merger to over $400 million in 1999, in effect creating a new competitive class I railroad from scratch in three years. I submit that all of the above accomplishments illustrate a strongly positive cumulative effect from those transactions in creating an effective competitive balance in the rail sector with a stronger, more viable network to serve those customers over the long term than existed before.

Since our merger, BNSF has spent over $9 billion on capital invested in the BNSF system on infrastructure improvements, equipment and capacity expansion. Capital spending in the 1996-1999 period was approximately 2.5 times greater than the combined capital spending by the two companies (BN and ATSF) in the four years prior to our merger. In that same post-merger period, almost $1.6 billion has been spent on expansion projects. See Appendix K, BNSF Capital Spending 1994-1999 (Chart 58 in BNSF's

Quarterly Report). On a stand-alone basis, the predecessor firms would never have been in a position to afford that level of capital investment.

Our success in meeting our commitments and in making the investments to serve our customers' present and future needs should allay any concerns arising from the failures of other railroads to deliver on their promises. And, just because other carriers have had these failures, we should not be penalized by adoption of a rule or policy that would prevent our proposal for future improvements from even being heard by this Board.

ALL RAIL CONSOLIDATIONS ARE NOT THE SAME

As I described, the merger of the Burlington Northern and Santa Fe railroads delivered on the commitments we made to shippers for improved service and new opportunities and on the promise we made to the STB. Moreover, our newly combined system provided an essential outlet and alternative for shippers during the congestion created in 1997 and 1998 from the implementation of the UPSP merger. It is not my intention to describe in any depth the benefits or attributes of the proposed BNSF/CN combination, which will be described fully in our application in a separate proceeding. I believe, however, since the announcement of our transaction has been credited with triggering this proceeding to look at the ramifications of and policies that should be applicable to, future rail consolidations in general, it is important to recognize that the proposed BNSF/CN transaction differs materially from the recent transactions that have led to this heightened level of concern over rail consolidations.

A glance at a map shows that our proposed transaction is predominantly a north-south transaction and does not involve lines in the eastern or southeastern United States. Our transaction thus does not create or require a United States transcontinental railroad response. As opposed to the massive competitive overlap affecting thousands of shippers in the western United States in the Union Pacific-Southern Pacific merger, a BNSF/CN combination involves only a handful of commonly served locations and about a dozen (or fewer) shippers commonly served by only BNSF and CN. Similarly, the UPSP transaction required rationalization and integration of terminals and yards across the western United States, new operating patterns and routings, and realigned work forces. A BNSF/CN combination would involve none of this complexity.

In contrast to the breakup of Conrail and the pair of mergers and restructuring of that railroad into the expanded CSX and Norfolk Southern systems, a BNSF/CN combination does not involve the dismemberment of a large existing system, and its reassembly into two new systems with radical restructuring and realignment of facilities in the entire eastern United States.

In addition, the merger of Union Pacific and Southern Pacific involved one strong carrier and another, much weaker carrier, Southern Pacific, which I know well was suffering from years of inadequate capital investment and service problems. The Conrail breakup has left the two surviving firms with high debt levels and the need to improve restructured facilities. In contrast, the combination of the BNSF/CN systems would involve two networks that are well maintained, set the standard for service in our industry, and which have low operating ratios and strong balance sheets. Our combination would not involve the creation of any new debt or the payment of a premium by either party.

In terms of scale, in addition, our proposed transaction is of a different magnitude than those transactions. As a result of the UP's merger with SP, UP today is approximately 10% larger than BNSF in terms of freight revenue. If our proposed transaction were implemented, the combined system would be comparable to UP in terms of revenue generated from U.S. operations. Our proposal is also different in character from a U.S. transcontinental merger of an eastern and western carrier, which might well trigger a merger of the remaining two carriers. Even were a combination involving Canadian Pacific to evolve in response to our transaction, that should not give rise to the level of concern over a U.S. transcontinental merger.

IT IS APPROPRIATE FOR THE STB TO EXAMINE ALL FUTURE CONTROL TRANSACTIONS, INCLUDING OURS, TO ASSESS THE LIKELY EFFECTS OF THE PROPOSED TRANSACTION ON SHIPPER SERVICE, AVAILABLE INFRASTRUCTURE AND EFFECTS OF TRANSACTION RELATED DEBT

I understand the shippers' concerns arising from the UPSP and Conrail transactions, and I recognize why they may be apprehensive about new proposals for merger or combination. To restore the confidence of shippers in the rail sector's ability to provide improved, responsive service at reasonable rates following mergers and consolidations, I propose that applicants in future control transactions, including our own, should be required to address several specific issues about their post-combination operations and structure, so that the STB has the information it needs to evaluate whether a proposed transaction is in the public interest.

First, the applicants should be required to offer specific assurances regarding post-merger service to their customers. The kind of assurances shippers tell us they want includes commitments on service and availability of routing options. Along with the Canadian National, we have recently advised all of our shippers of our intention to do just that, should this Board approve our proposed combination.

Second, in light of the recent problems experienced by UP, CSX and NS, applicants in future control proceedings, including our own, should expect that their proposed operating plan to receive heightened scrutiny, especially in the area of planning for integration of the combining carriers' information technology systems to ensure that service for rail customers and the larger network does not degrade when the combination is implemented.

The STB also asked for comments on whether the railroad industry has and will have the necessary infrastructure, capacity and configuration to meet expected demand for freight service now and in the future. My answer is that the rail industry must provide the necessary infrastructure, capacity and configuration to meet its customers' needs, or our customers will find other ways to ship their freight where it is possible for them to do so. It is important that railroads take actions that preserve and enhance their ability to service shippers, including consolidations when they are financially healthy, operating efficiently and it otherwise makes sense to do so. Railroads must be in a position and have the financial capacity to make appropriate capital investments on a sustained basis over time to expand capacity, maintain and improve facilities, purchase equipment, and enhance safety in order to meet their customers' needs. I note, however, that investment capital must come from profitable operations, and efficiency-enhancing mergers and combinations can make it easier for carriers to generate the profits needed to yield the capital required for investment. Thus, delaying good mergers and deferring their efficiency enhancements may have the unintended effect of delaying expanded capital investments in rail infrastructure and equipment.

Because this issue is so critical, it is an appropriate area of inquiry during any specific control transaction for the Board to examine information about the financial stability and ability to make future capital investments of the combining carriers, and to assure itself that the consolidated firm will be financially capable, as part of the public interest determination. For example, a carrier that will have to assume a great deal of debt in order to acquire another carrier may not be in a position to make necessary capital investments, whereas carriers proposing to combine in a debt-free transaction should not have any problem meeting reasonable capital investment expectations.

Well thought out and executed combinations will increase efficiencies and resulting profitability and cash flow. This will result in more stability in the rail sector, a lower cost of capital and, therefore, a greater ability to justify additional investment by railroads. In addition, some of the synergies that result from the combination (e.g., information technology and purchasing synergies) will make future investments less expensive and therefore again, more likely to occur. To deny the railroad sector, or any other industry, the ability to achieve these benefits puts it at a competitive disadvantage in the capital marketplace and makes future investment in the rail sector less likely.

I believe that a well executed transaction coupled with a well capitalized balance sheet for the resulting combination will produce an entity that has a substantially greater chance not only of surviving, but also of continuing to provide reliable service on a well maintained system with the infrastructure capacity to meet customers' needs, even in depressed economic times. If the government were to adopt a new merger policy that resulted in a larger number of weaker players, the shipping public would be at increased risk of service failures or, possibly, the permanent loss of some options.

I expect that many parties will ask you to consider the effects of a hypothetical rail industry structure in which there are only two major transcontinental railroads in the United States. If there are ever proposals for a U.S. transcontinental railroad or railroads, there can and should be appropriate hearings and proceedings on those issues, but that is not the transaction we have proposed. In my opinion, the legitimate interests of the federal government in carrying out the National Rail Transportation Policy should be to assure the continued vitality of the rail sector for the benefit of America's shippers and to ensure that shippers will enjoy consistently reliable service from their railroads. History has demonstrated without any question that the railroad industry was close to ruin in a climate of excessive regulation and balkanization. It has been able to invest in infrastructure and improve its ability to meet its shippers' needs in the post-Staggers era of deregulation and consolidation with the appropriate exercise of the STB's conditioning authority in appropriate transactions and its continuing oversight of the industry. The rail industry needs the flexibility to evolve in response to changing service requirements of its shippers, the financial expectations of its investors, and the natural market forces of competition. In my opinion, it would be unwise, and even impossible, for the Board or any other entity, to prescribe a single ultimate "end game" for the rail industry. The number of carriers in the United States is less important than the quality of the service they can provide their shippers, and the Board should focus its efforts on preserving and improving the quality of service.

Chairman Morgan, you have also recently raised the important question of whether some of the benefits of any proposed transaction might be achievable without a merger or combination. You are correct to pose that question, particularly in light of the service failures that have accompanied the UPSP merger and Conrail breakup and the associated public costs of those failures. In answering your question, however, I would urge the Board to consider three points.

First, if substantial tangible benefits were easily achievable without a change of control requiring regulatory approval, the applicants would simply go forward and gain those benefits without incurring the transaction costs and regulatory uncertainty of an STB control case. The STB has to presume that no carrier would forgo substantial and certain benefits unless the law clearly requires STB approval of the events leading to those benefits.

Second, history has proven that substantial shipper benefits arise principally from the creation of new single line services, which come only from consolidations that open new single-line destination markets for shippers.

Finally, I would urge you to consider the negative experience of many rail enterprises that have tried to achieve some public benefits short of a merger. Our own experience is illustrative. As we explained during our merger application several years ago, the Burlington Northern and The Atchison, Topeka and Santa Fe attempted to work out a cooperative agreement to move traffic over Avard, Oklahoma via a haulage agreement before our merger proposal; however, it did not work effectively, because our separate managements at that time had different incentives. Individuals involved in an enterprise will respond to the economic incentives offered to them, and each firm is structured to focus its resources for the benefit of its own customers and shareholders. Without common control and management, no two carriers will achieve the common cause of serving shippers located on different carriers with the excellent, dedicated service shippers could expect from a commonly-controlled carrier.

CONCLUSION

Finally, I want to reiterate the importance of letting the market work to identify potentially beneficial rail industry transactions without central planning of the railroad industry by the federal government. The government is ill-equipped to coax forward transactions that do not have the confidence of the investment community, nor should it delay considering transactions that the market brings forth. If the STB were to propose a moratorium on considering rail consolidations, or even request the industry to forgo proposing transactions for a period of time, that step would introduce a new level of uncertainty for our industry. A moratorium in itself presupposes that there will be another attempt at major consolidations in the future and that we are simply delaying that day. That step would lead to heightened uncertainty in the financial markets regarding the future structure of the industry, as opposed to enhancing stability, because the government will have introduced a new issue as to when any further efficiency-enhancing transaction might be allowed to occur. This would be a real problem with respect to valuing our companies and raising capital in the private markets.

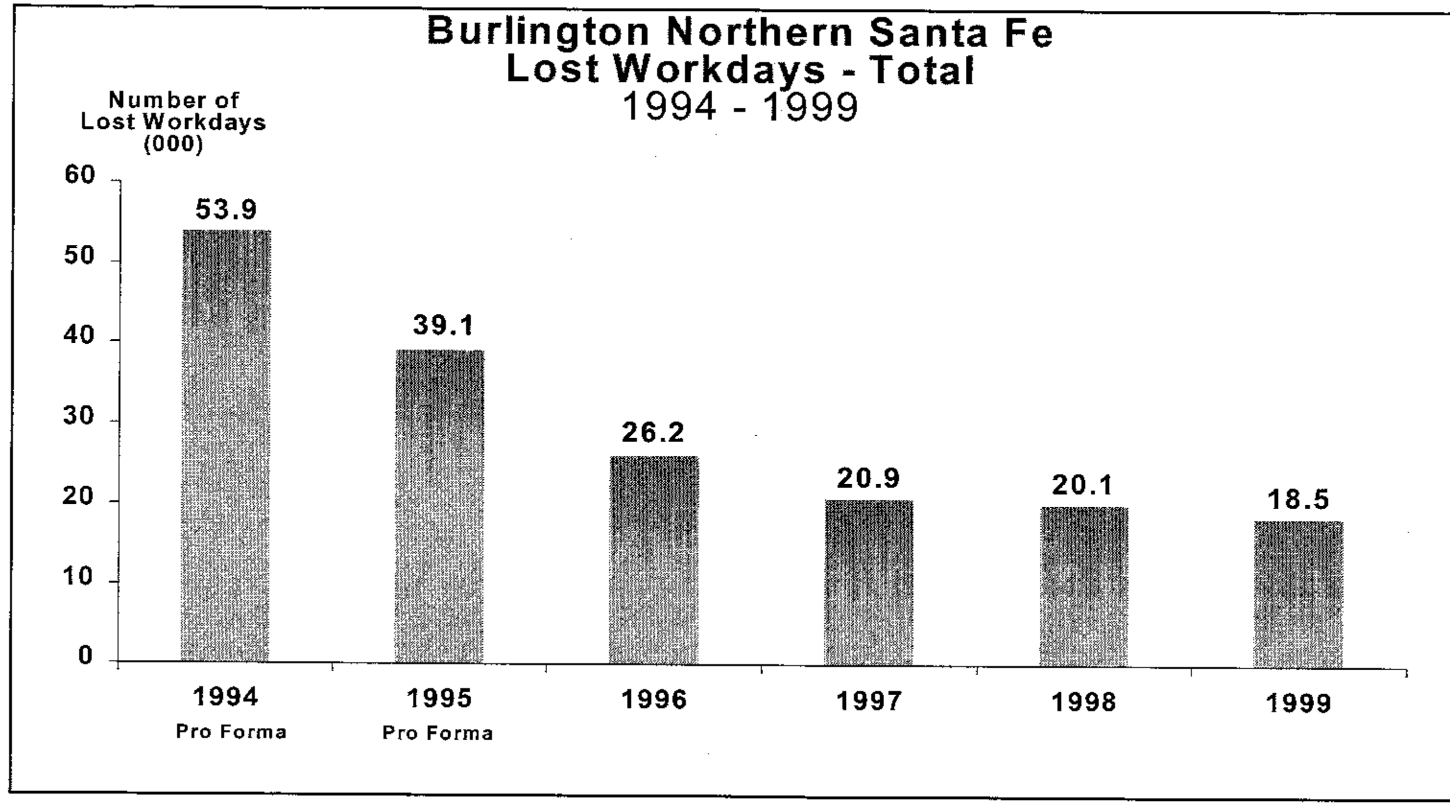
The government has a very important role in judging the public interest of each transaction presented to it, and considering the merits of each transaction in a timely way. The STB (and its predecessor, the ICC) has an existing regulatory process that works well to assure prompt but thorough review of each proposed control transaction to determine whether it is in the public interest and consistent with the National Rail Transportation Policy.

I recognize the heightened concern of the nation's shippers, our valued customers, with the outcome of rail consolidations. I believe the Board should ensure that those concerns are addressed as part of the Board's review when approval is sought with particular scrutiny of the following factors, along with the other considerations traditionally reviewed as part of the public interest balancing test.

1. Are the applicants already providing good service to their customers, and does their proposal risk endangering their current level of service to their customers or to the nation's rail system?
2. Are the applicants taking steps to address the needs of shippers by making effective commitments on continued service and competitive options as part of a credible operating plan?
3. Are the applicants now financially stable and operating efficiently?
4. Does the nature of the proposed transaction and its financial structure involve the assumption of substantial debt or otherwise result in a combined firm that is unlikely to be able to make sustained capital investments over time necessary to meet the needs of its customers?

The Board should affirm its confidence in its existing processes, and with special emphasis on the above criteria, continue to apply the law and its precedents in an even-handed and timely manner.

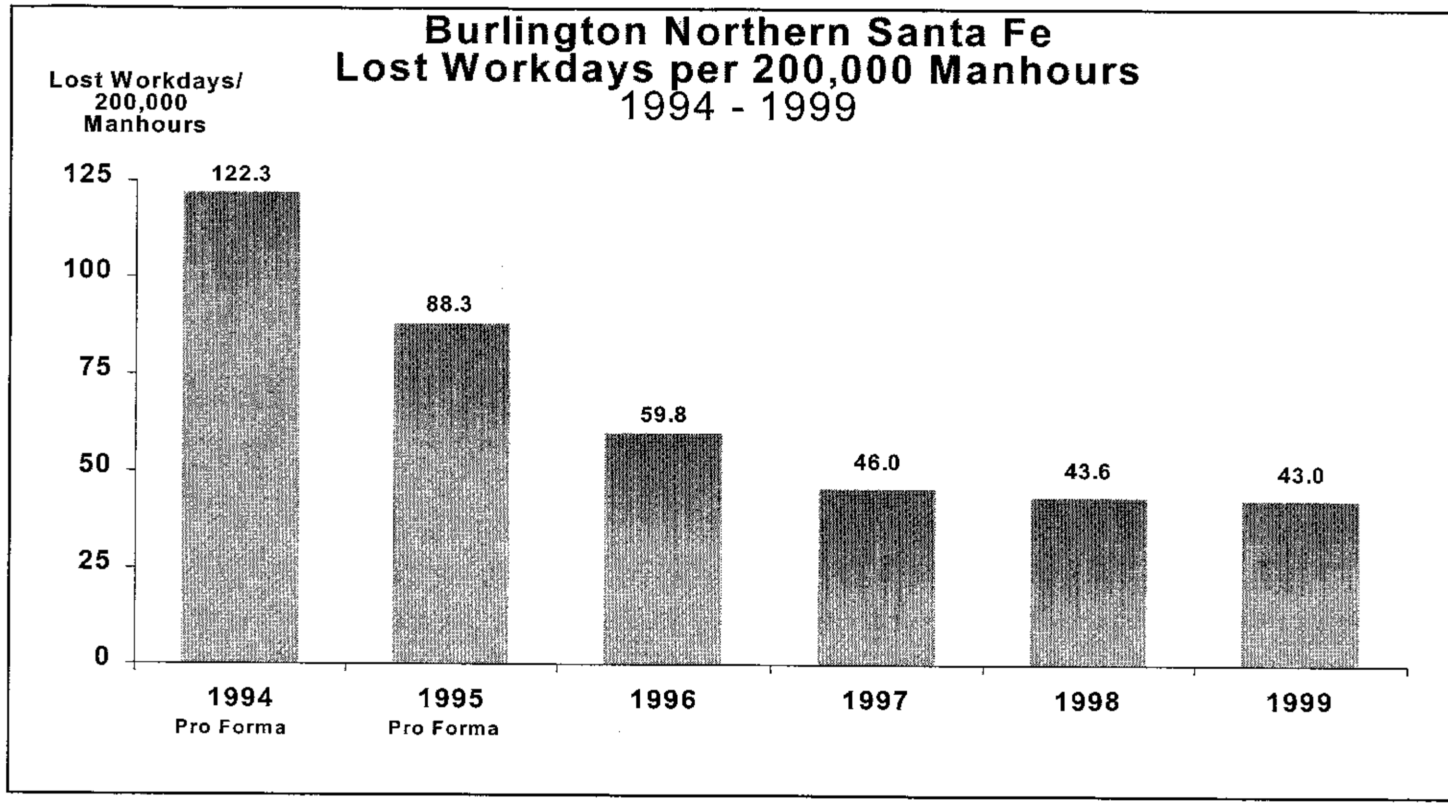
Chart No. 4
From BNSF's Quarterly Report



Total lost work days have dropped by about 35,400. This is a 66% reduction. Besides the elimination of human pain and suffering, the improvement represents the equivalent of 170 yearly full-time employees who can be available to serve our customers.

APPENDIX A

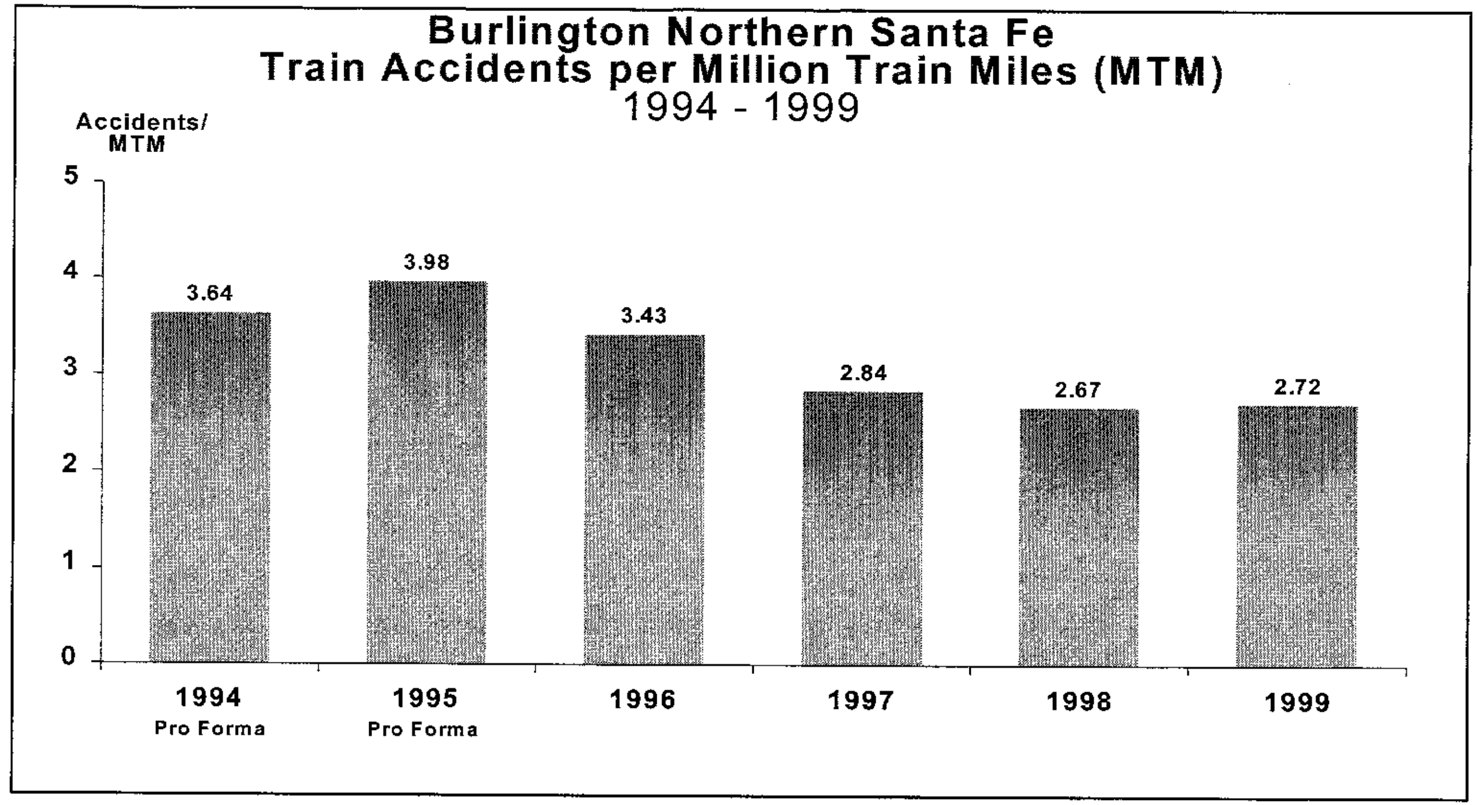
Chart No. 3
From BNSF's Quarterly Report



A key measure of severity is the ratio of lost work days per 200,000 hours worked because the size of BNSF's workforce and the number of hours worked fluctuate each year. Lost workday frequency has improved every year since the merger was announced. 1999's 43 lost workday ratio represents a 65% reduction compared to 1994.

APPENDIX B

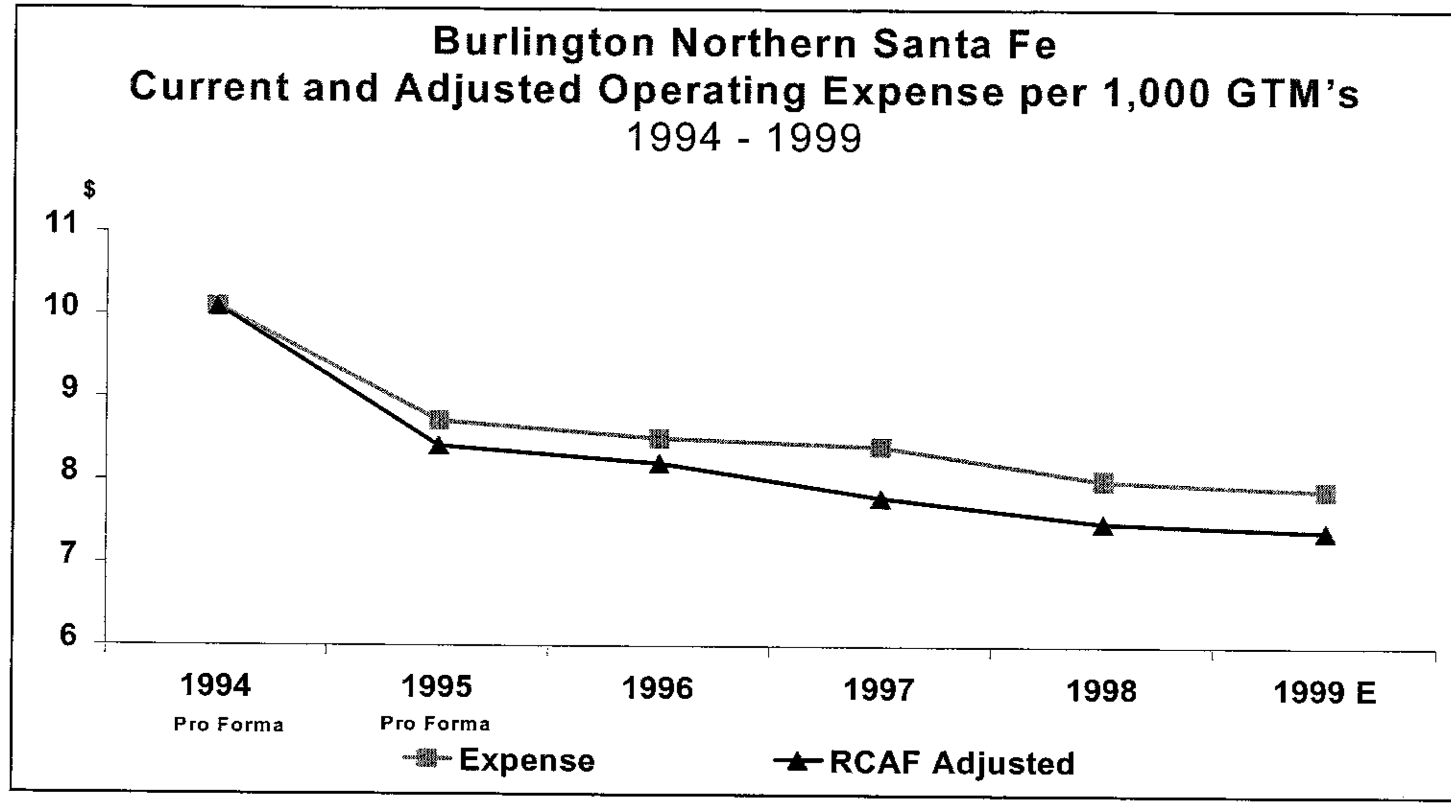
Chart No. 5
From BNSF's Quarterly Report



This rate peaked in 1995. Since then it has dropped 32%.

APPENDIX C

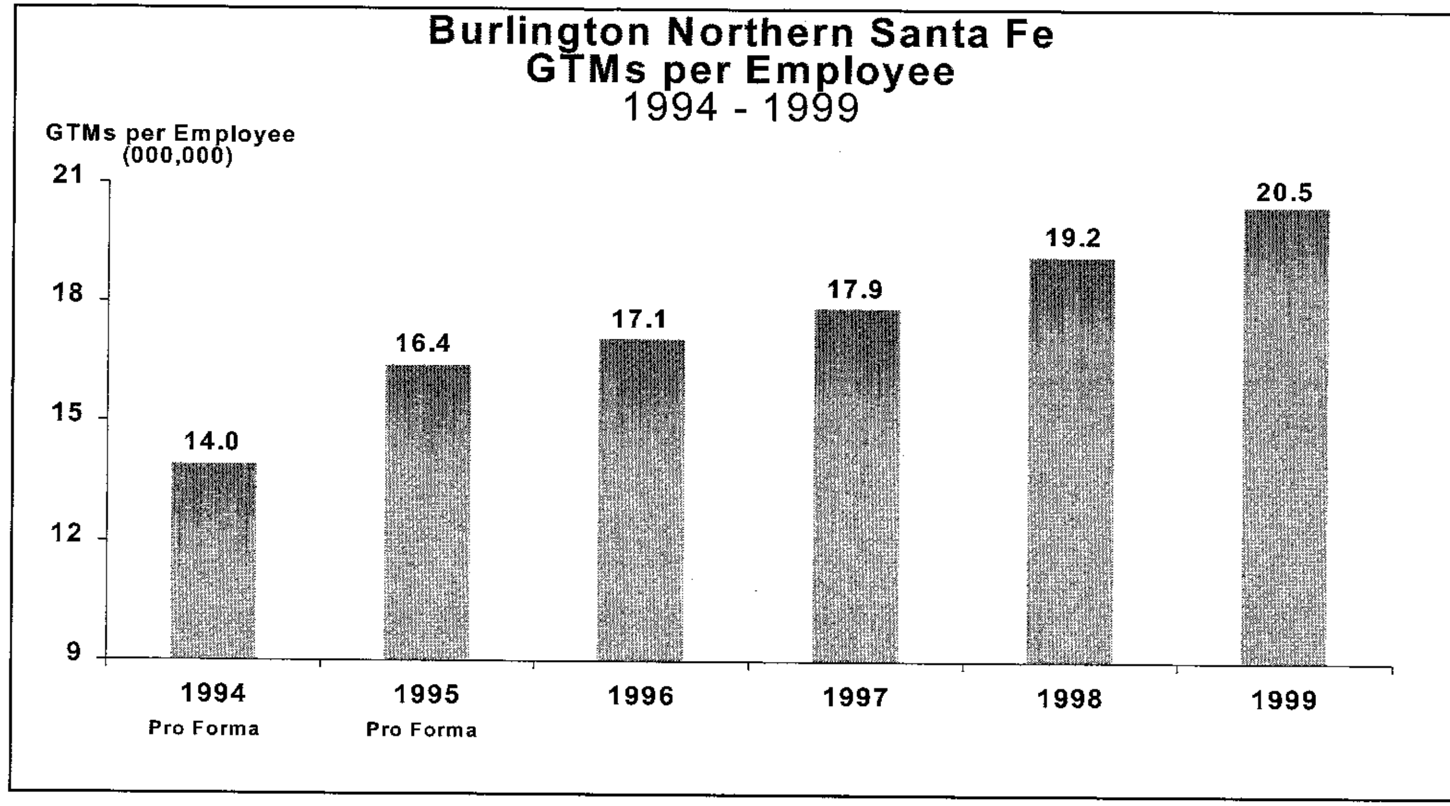
Chart No. 36
From BNSF's Quarterly Report



Since 1994, BNSF's operating expense per 1000 GTMs has been steadily decreasing, 22% and 27% in real and adjusted terms respectively, and is now the lowest in the industry.

APPENDIX D

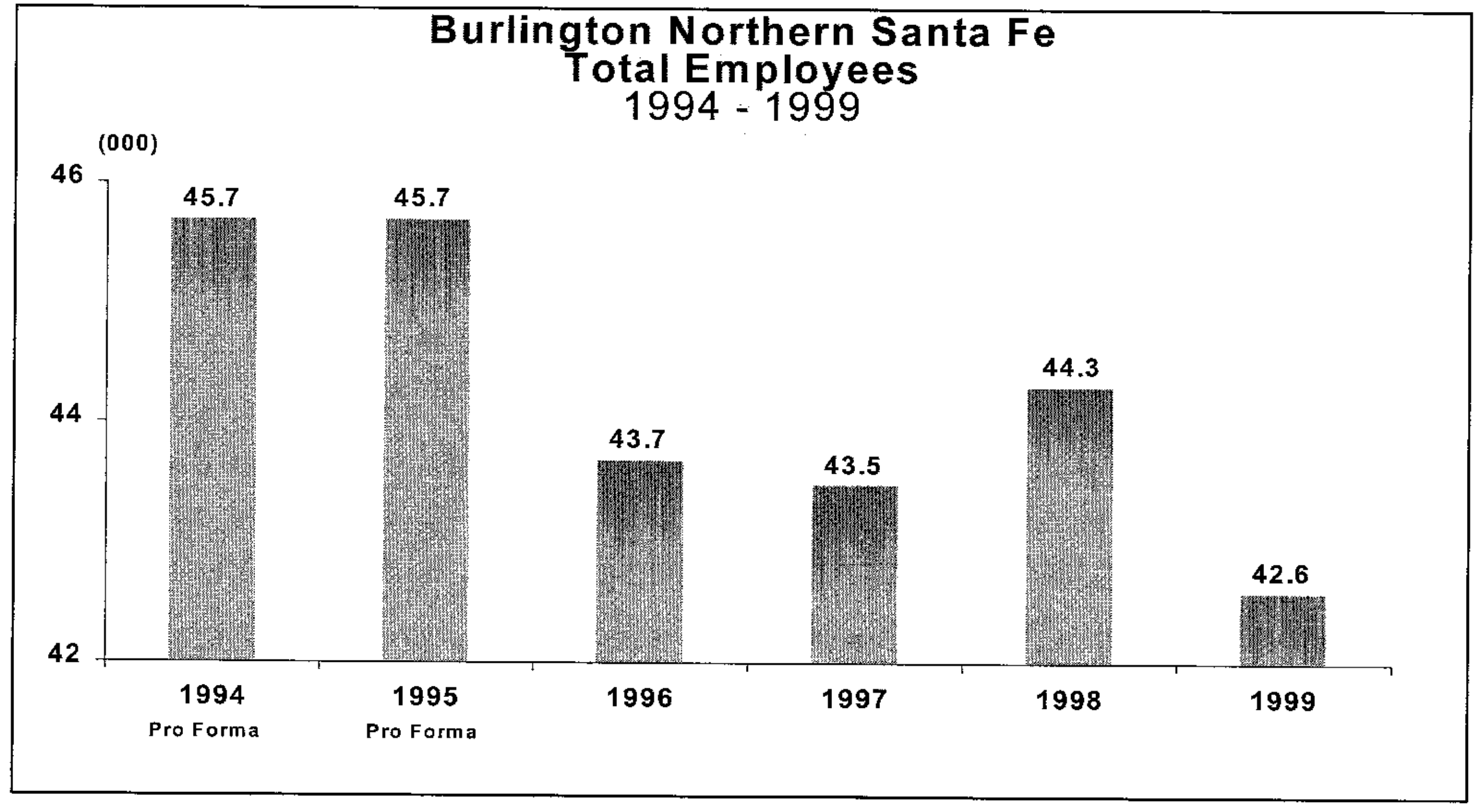
Chart No. 45
From BNSF's Quarterly Report



GTMs per employee have increased 46% since 1994.

APPENDIX E

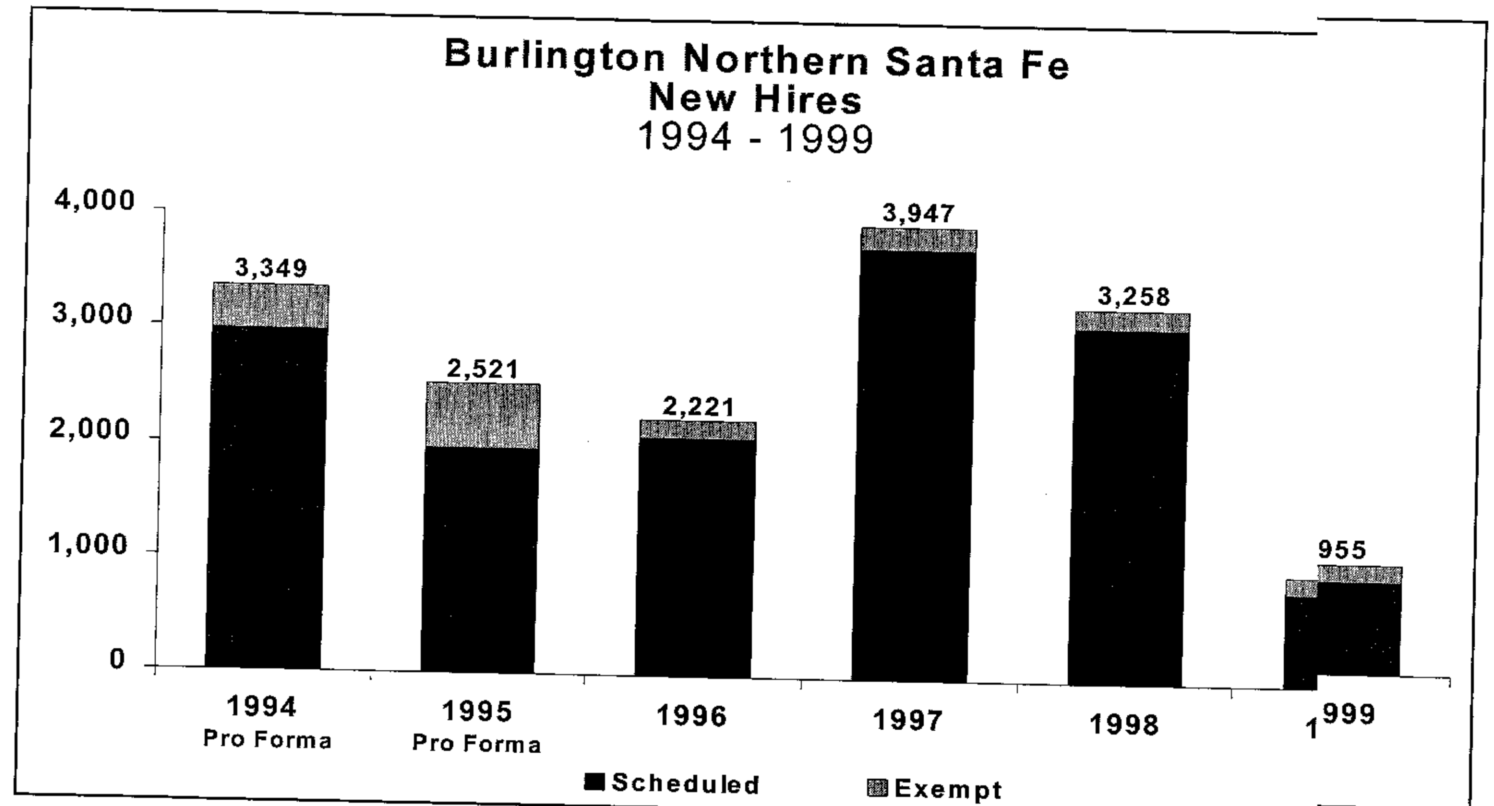
Chart No. 39
From BNSF's Quarterly Report



Employment has dropped 3,100 since 1994-95, a 7% reduction.

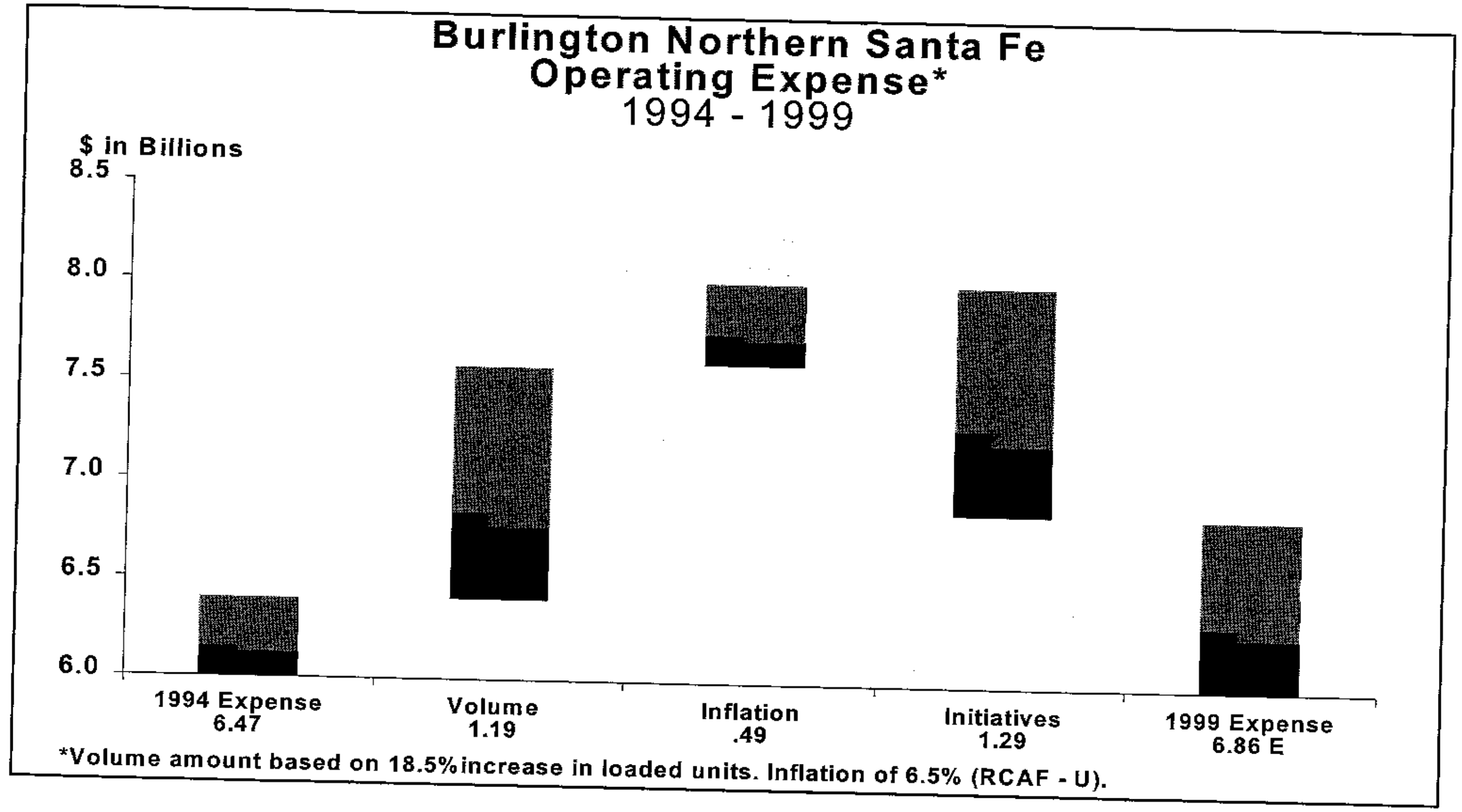
APPENDIX F

Chart No. 40
From BNSF's Quarterly Report



Over the 1994-99 period, we have hired about 16,000 employees, about five times the overall workforce reduction of 3,100 that occurred during that time period. About 90% of the new hires were in the union ranks.

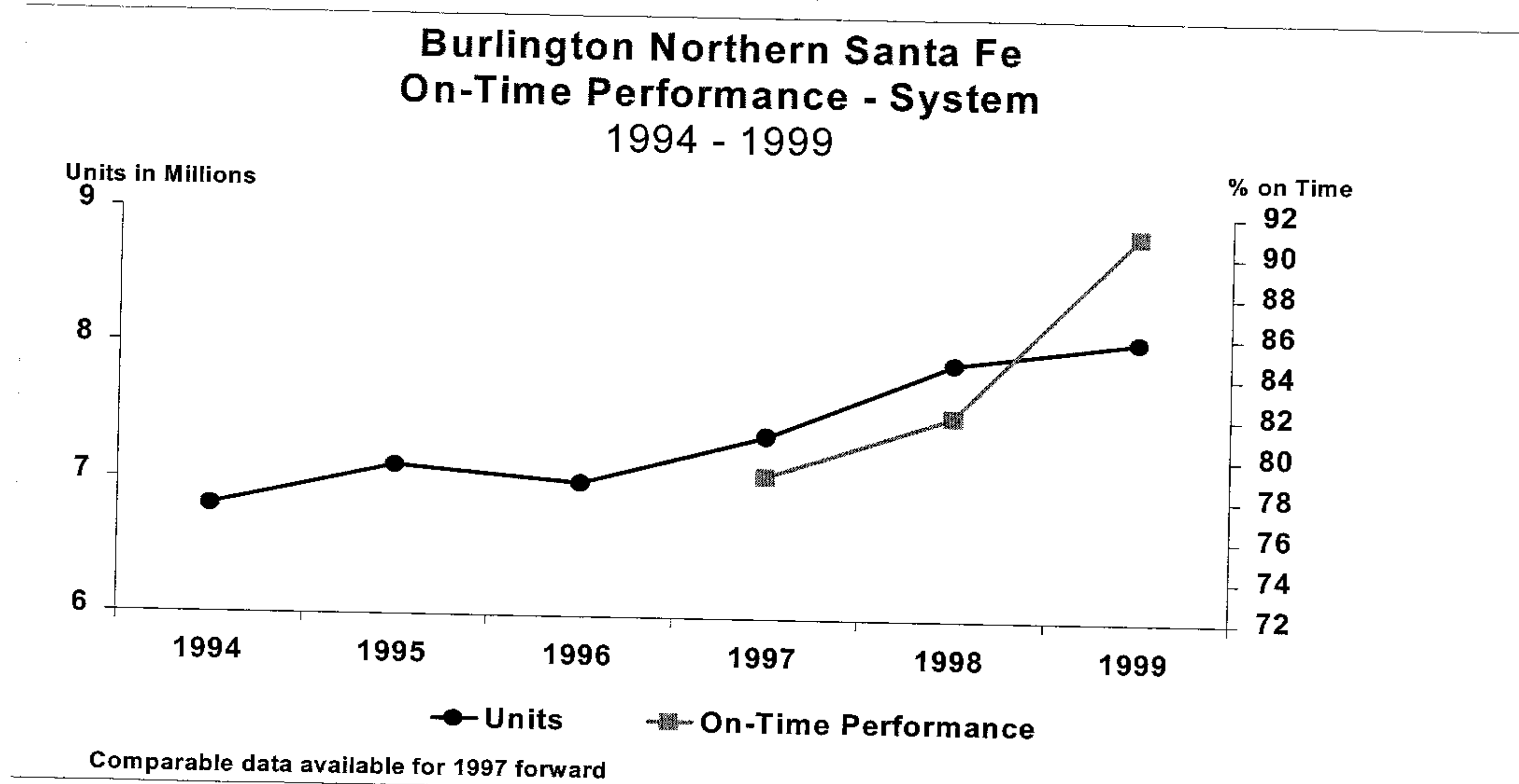
Chart No. 38
From BNSF's Quarterly Report



This waterfall chart shows that BNSF's efficiency reduced overall expenses almost 2.5 times as much as the 6.5% inflation (RCAF factor) added.

APPENDIX H

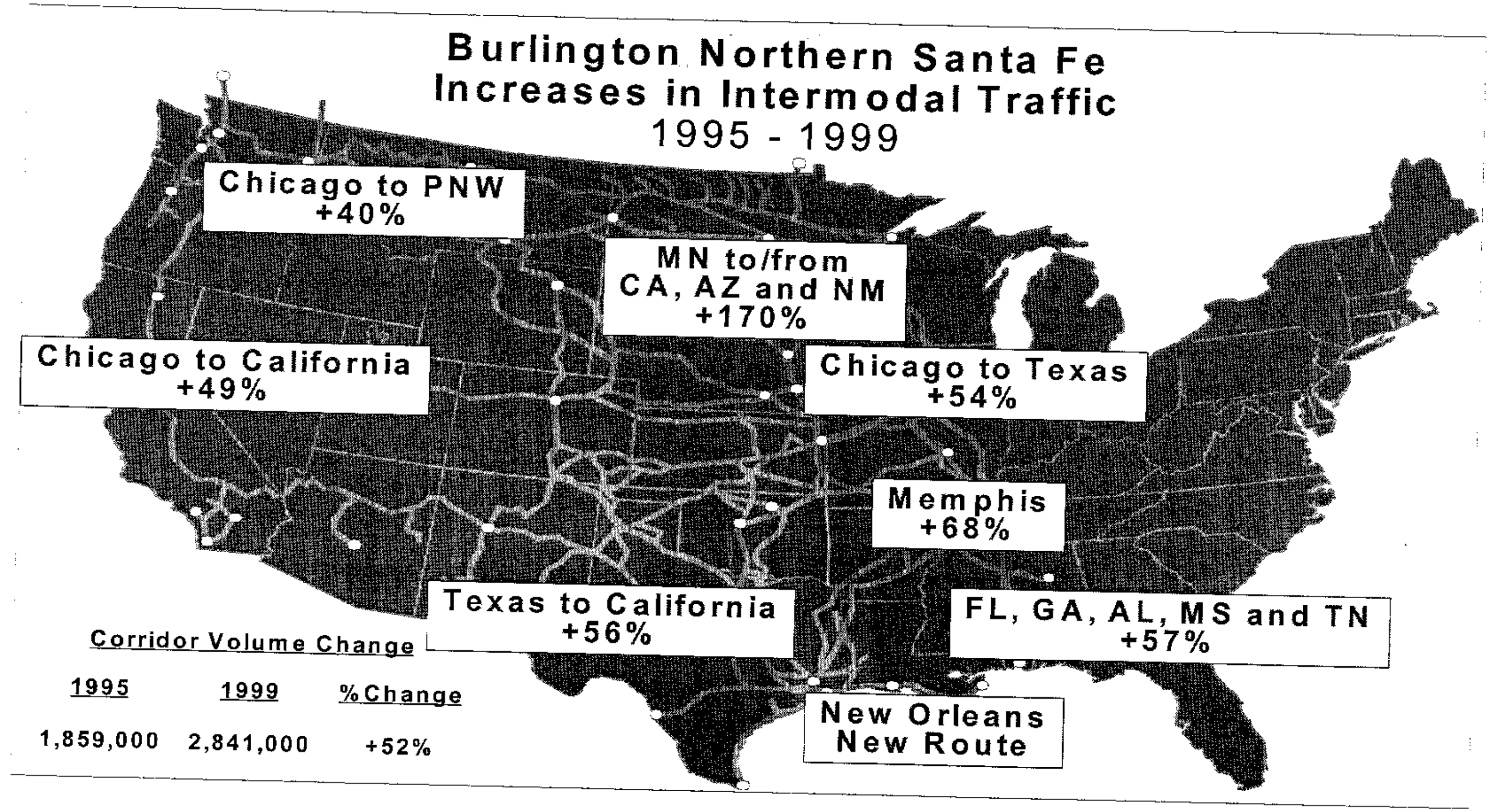
Chart No. 13
From BNSF's Quarterly Report



Comparable data is available only since 1997 when TSS was installed systemwide. On-time performance for all business groups has increased since then to the point where system on-time performance exceeds 90% on-time daily for all cars and intermodal units, dock-to-dock.

APPENDIX I

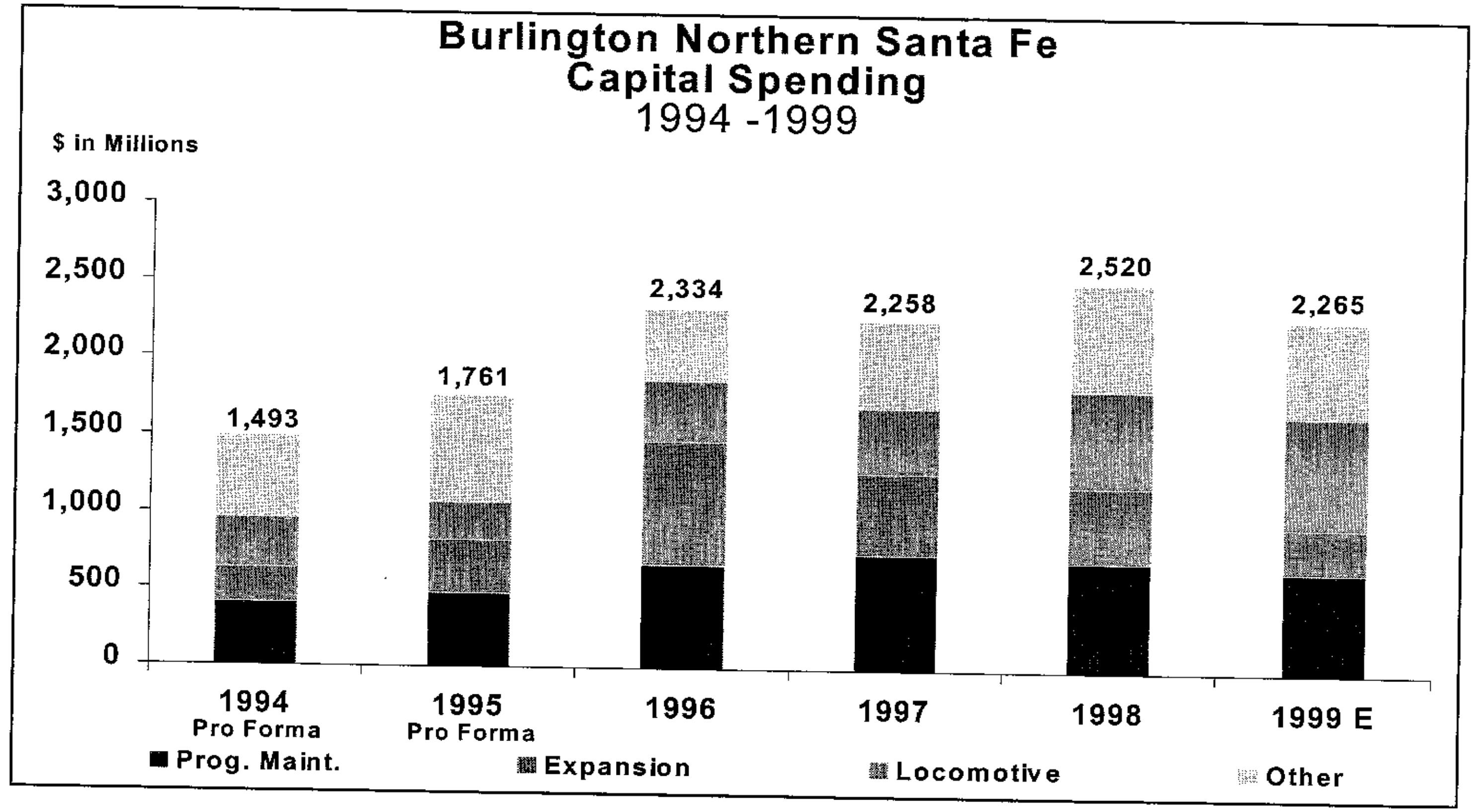
Chart No. 15
From BNSF's Quarterly Report



These increases speak for themselves. Intermodal traffic increases range from 40% upwards to 170% in major lanes. New lanes like Minnesota to California and the Southwest to and from New Orleans have been achieved due to our merger and UP/SP rights opportunities.

APPENDIX J

Chart No. 58
From BNSF's Quarterly Report



Capital spending in the 1996-1999 period is roughly 2.5 times capital spending in the four years prior to the BN/Santa Fe merger (1991-1994). In the 1996-1999 time period, almost $1.6 billion has been spent on expansion projects.

APPENDIX K